

STATE OF TENNESSEE
YEAR 2000 COMPLIANCE
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 10

Year 2000 Readiness Disclosure. The "Year 2000 Issue" ("Y2K") arises because most computer software programs allocate two digits to the data field for "year" on the assumption that the first two digits will be "19". Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc. Absent reprogramming Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could impact both the ability to enter data into the computer programs and the ability of such programs to correctly process data. Y2K affects the computer applications and other equipment of the State and the State's vendors, investment providers, bond trustees and any persons with whom the State has contracted.

The State has assessed the impact of Y2K on its computer applications. The State has completed its assessment and has determined that certain computer applications are mission-critical, certain are critical, and certain are supportive. Mission-critical computer applications are those for which there are no reliable manual alternatives, and for which failure to be in Y2K compliance would prevent the State from fulfilling its mission. Critical computer applications are those for which there are manual alternatives, but the State would unlikely be able to fully or efficiently perform the functions manually, because of the volume of manual activity that would be required. Supportive computer applications are those for which there are manual alternatives and the State expects to be able to perform such functions manually, if necessary.

The State has 148 mission-critical and critical computer applications, and as of June 30, 1999, the State had assessed 100% of such applications and remediated 94% of such applications. The State considers remediation, in this context, to mean either the successful conversion of an existing computer application or the replacement of an existing application with a new application. The State is continuing testing of the computer applications and expects the cost to be \$15.5 million. Those under contract (2 of 148) are expected to be completed by August 1999, at a cost of \$4.4 million. The State's mainframe system provides the supporting computer system infrastructure upon which the State's application systems reside and are processed. The State's mainframe and all systems' software have been tested and the State believes those systems are Y2K compliant. In addition, the State is in the process of assessing and remediating the Y2K effect on other equipment.

The State has identified 183 desktop applications that have been declared mission-critical or critical by their owner. Desktop systems are those systems that provide support to a function on the desktop but are not deemed to have risk as far as the enterprise is concerned. As of June 30, 1999, the State had assessed 100% of such applications and had remediated 84% of such applications.

The State is not presently aware of any non-compliance by its yet untested desktop mission-critical computer applications and other equipment or of any costs to achieve Y2K compliance that will have a material negative impact on the State's operations or financial status; however, the State can give no assurance that circumstances will not change. The State has developed contingency plans for all mission-critical and critical functions. These plans are expected to be tested during October 1999.

The State's efforts to ensure Y2K compliance of its computer applications, mainframe and systems' software, desktop applications, and other equipment are not a guarantee that systems and equipment will be Y2K compliant.

The State is soliciting information from other organizations whose Y2K compliance could affect the State regarding the status of their assessment, testing and remediation of their computer applications and other equipment. Of the organizations that have responded to date, all expect to achieve compliance in a manner that will not have a material negative effect on the State's operations or financial status although no assurances can be given that circumstances will not change. The State does not have full and complete information, however, from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these organizations to be in Y2K compliance may have a material negative impact on the State's operations or financial status.